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Q2 2014

VENTURE CAPITAL MONITOR

A QUARTERLY UPDATE ON THE CANADIAN VENTURE CAPITAL INDUSTRY

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This publication by the Small Business Branch provides current information about the venture capital industry in Canada. The series will track trends in investment activity, report on topical research and look at key technology clusters where investment is taking place.

Introduction

This issue covers venture capital (VC) investment and fundraising activity in Canada during the second quarter of 2014.

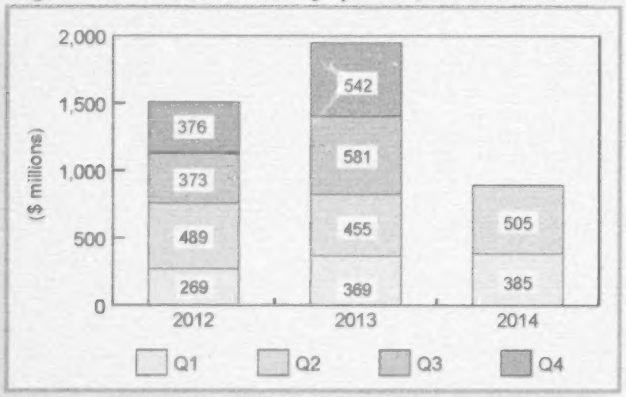
VC Activity Overview

Investment and fundraising

Quarterly VC investment grows but fundraising drops

Canadian VC investment in Q2 2014 grew relative to investment in Q1 of the same year, rising to $505 million; an increase of 31 percent from $385 million in Q1. Relative to total investment in Q2 2013, investment in this quarter also experienced a year-over-year increase of 11 percent from $455 million (Figure 1).

Figure 1: VC Investment by quarter, 2012 to 2014



Source: Thomson Reuters Canada 2014.

Although total VC investment in Q2 jumped by 31 percent relative to Q1 of 2014, the number of deals only increased 4 percent; from 125 deals in Q1 to 130 deals in Q2. Most of the Q2 VC deals occurred in the provinces of Ontario or Quebec, the majority of which were concentrated in the information technology sector.

While year-over-year VC investment increased from $455 million in Q2 2013 to 505 million in Q2 2014, VC fundraising dropped significantly over this time period; falling from $392 million in Q2 of the previous year to $112 million in Q2 2014 (Table 1). This is also a sizeable drop relative to a very strong Q1 of this year, where fundraising reached $531 million.

Table 1: VC investment and fundraising, Q2 2013 and Q2 2014

	Q2 2013	Q2 2014	Percent Change
	($ millions)		
Investment	455	505	11.0
Fundraising	392	112	-71.4

Source: Thomson Reuters Canada 2014.

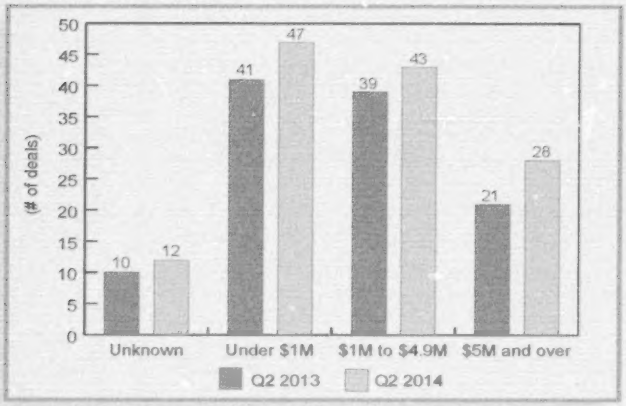
Deal size

Deal size rises in Q2 2014

Average deal size in Q2 2014 rose to $3.9 million per deal, up from $3.1 million per deal in Q1 2014. Notable deals, which took place during the quarter included financings of: Newfoundland-based Verafin; Toronto-based Wattpad and SHOP.CA Network; and Vancouver-based Visier.

A total of 130 deals closed in Q2 2014, up slightly from 111 deals in the same quarter the previous year. Overall, the distribution of growth during this quarter was spread among all of the categories, with all seeing increases in the number of deals relative to Q2 2013. The $5 million and over category experienced the most growth, increasing 33 percent from 21 deals in Q2 2013 to 28 in Q2 2014 (Figure 2).

Figure 2: Distribution of VC investment by deal size, Q2 2013 and Q2 2014



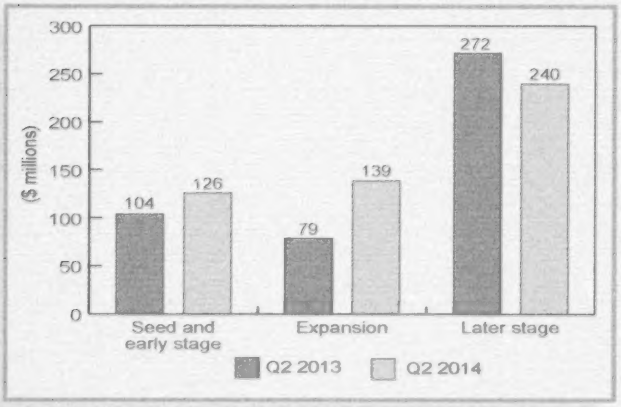
Source: Thomson Reuters Canada 2014.

Stage of development

Investment at expansion stage grows

VC investment at the later stage of development captured almost half of all VC investment in Q2 2014, with a total of 48 percent. Although it represented the largest amount of investment among all stages of development, later stage investments also dropped 12 percent relative to the same quarter in the previous year. Investments in the expansion stage experienced a 76 percent growth in investment relative to Q2 2013. Seed and early stage investments also experienced growth during the second quarter, climbing by 21 percent relative to the same quarter last year (Figure 3).

Figure 3: VC investment by stage of development, Q2 2013 and Q2 2014



Source: Thomson Reuters Canada 2014.

New versus follow-on investments

Follow-on investments grew in Q2 2014

The total number of deals completed in Q2 2014 was 130, 42 of which were new investments with a total value of $90 million, and 88 were follow-on investments with a total value of $415 million. Of the new investments, 26 were in the seed and early stage category with a value of $32 million.

In the follow-on category, Q2 2014 had the highest number of follow-on investments in the last four quarters, growing from the low of 60 investments in Q2 2013 to 88 in Q2 2014. Almost half of all follow-on investments in Q2 2014 were at the later stage with 40 deals at a value of $220 million (Table 2).

Table 2: Number of companies that received new versus follow-on investments, Q2 2013 to Q2 2014

Total Investment		Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
New	Seed and early stage	34	42	33	26	26
	Expansion	4	7	6	9	6
	Later stage	13	11	18	11	10
	All	**51**	**60**	**57**	**46**	**42**
Follow-on	Seed and early stage	19	18	19	19	30
	Expansion	18	17	16	15	18
	Later stage	23	29	35	45	40
	Other	0	0	1	0	0
	All	**60**	**64**	**71**	**79**	**88**
Total		**111**	**124**	**128**	**125**	**130**

Source: Thomson Reuters Canada 2014.

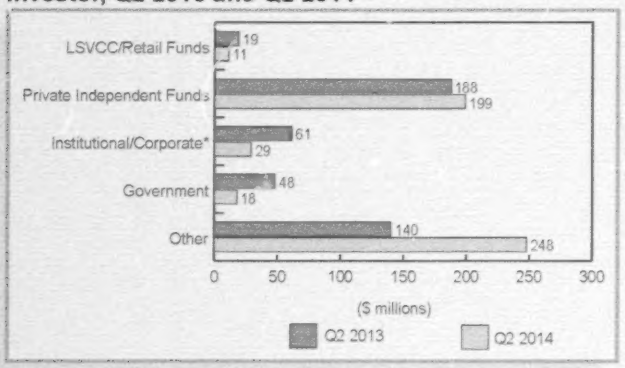
Type of investor

Institutional/Corporate investments experience significant decline

For the second straight quarter, investments by Institutional/Corporate funds decreased significantly relative to the previous year. In Q1 2014, year-over-year investments in this category decreased by 84 percent, and now in Q2 2014, investments have dropped by 52 percent relative to Q2 2013.

A total of $248 million was invested by the category of "Other" investors, rising by 78 percent from $140 million in Q2 2013 (Figure 4). This follows a trend from Q1 2014 where the "Other" category rose to $195 million, an increase of 37 percent compared to Q1 2013. The "Other" category consists of investors who do not wish to disclose their identities; therefore it is difficult to determine exactly to what factors these increases could be attributed.

Figure 4: Distribution of VC investment by type of investor, Q2 2013 and Q2 2014

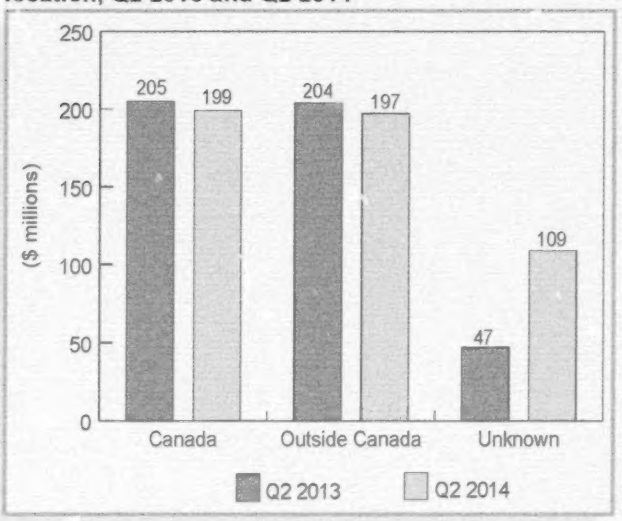


* Institutional/Corporate refers to direct investments by banks, financial institutions, endowments, foundations, pension funds and corporate venture funds.
Source: Thomson Reuters Canada 2014.

Source of funds

The distribution of VC investments by fund location for the known sources in Canada or Outside Canada is almost equal, with Canadian investments in Q2 2014 reaching $199 million and Outside Canada $197 million (Figure 5). These figures are almost unchanged relative to Q2 in the previous year, where the totals were $205 million and $204 million for "Canada" and "Outside Canada" locations. The number of investments made from "Unknown" origins rose significantly in this quarter, jumping from $47 million in Q2 2013 to $109 million in Q2 2014. Due to the significant number of investments in the Unknown category, it is difficult to draw conclusions regarding trends for the distribution of VC investment by fund location.

Figure 5: Distribution of VC investment by fund location, Q2 2013 and Q2 2014



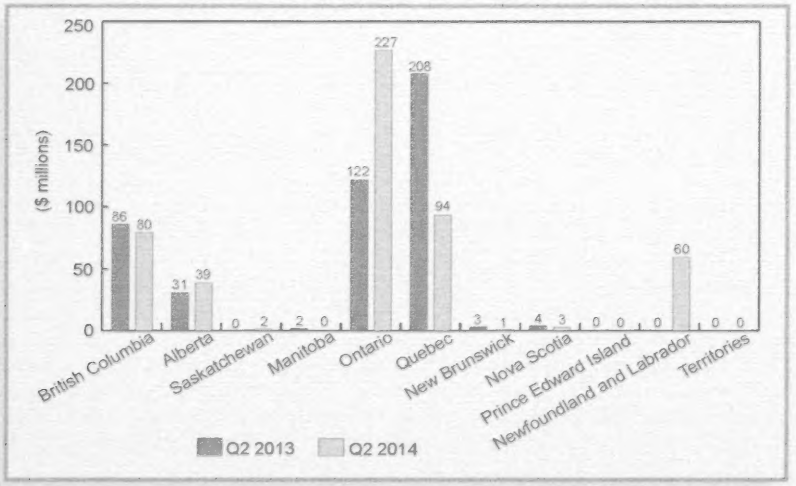
Source: Thomson Reuters Canada 2014.

Regional distribution

VC investment grew significantly in Ontario, dropped in Quebec

Ontario attracted the largest amount of VC total investment among the provinces in Q2 2014. Investment in Ontario rose significantly compared to the year before, with an increase of 86 percent, from $122 million in Q2 2013 to $227 million in Q2 2014 (Figure 6). This can be credited to large investments made during this quarter into Ontario companies, such as Toronto-based Wattpad, a consumer internet company which received $46 million in Series C funding in April, and SHOP.CA Network, which received a private placement financing of $31 million in June.

Figure 6: Regional distribution of VC investment by province, Q2 2013 and Q2 2014



Source: Thomson Reuters Canada 2014.

The increase in investment in Ontario was contrasted by a decline in investments by Quebec of 55 percent, dropping from $208 million in VC investments in Q2 2013 to $94 million in Q2 2014. However, despite the overall decline in investment relative to Q2 2013, the total number of companies that received VC investment in this province only dropped slightly over the time period, from 47 deals in Q2 2013 to 44 in Q2 2014 (Table 3). Also, despite these declines, the province still attracted the second largest amount of VC investment in the country.

Table 3: Number of companies receiving VC by province, Q2 2013 and Q2 2014

Province	Q2 2013	Q2 2014	Percent Change
British Columbia	13	18	39
Alberta	9	12	33
Saskatchewan	0	1	n/a
Manitoba	1	0	n/a
Ontario	36	46	28
Quebec	47	44	-6
New Brunswick	3	5	67
Nova Scotia	2	3	50
Prince Edward Island	0	0	n/a
Newfoundland and Labrador	0	1	n/a
Territories	0	0	n/a

Source: Thomson Reuters Canada 2014.

The province of British Columbia had the third highest level of VC investment, with $80 million in Q2 2014, a slight year-over-year dip from Q2 2013 investment levels of $86 million. One notable deal, which took place in the province during the quarter, was a $15 million investment into Vancouver-based Visier.

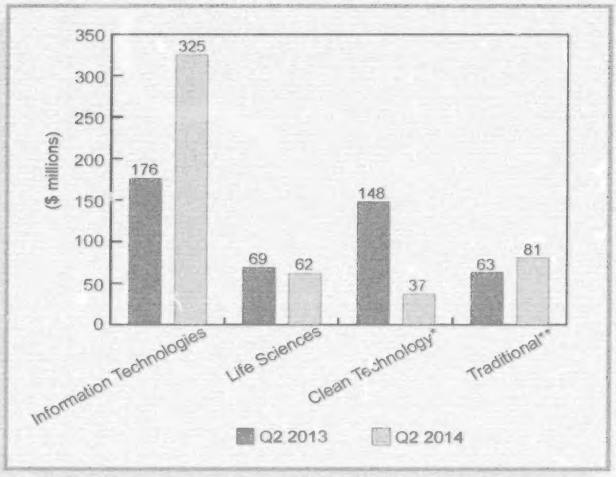
Remarkably, Newfoundland and Labrador was ranked fourth among the provinces for total VC investment, however that ranking was due to a single $60-million investment in May by American-based Spectrum Equity into the St. John's-based software development company, Verafin.

Sector distribution

Investments in information technology grows, clean technology declines

Investments in Q2 2014 were overwhelmingly concentrated in the information technology sector. Compared to the quarter in the previous year, investments in the information technology sector grew from $176 million to $325 million, an increase of 84 percent (Figure 7). This was due to major investments in information technology during the quarter, including the Verafin, Wattpad, SHOP.CA Network and the Visier deals.

Figure 7: VC investment by industry sector, Q2 2013 and Q2 2014



*Clean Technology refers to companies that are developing clean technologies and that are not already included in the industry sectors of Life Sciences or Information Technologies.
** Traditional refers to companies that are not included in the other sectors.
Source: Thomson Reuters Canada 2014.

Clean technology experienced the most notable decline of all the sectors during Q2 2014, with investments dropping 75 percent from $148 million in Q2 2013 to $37 million in Q2 2014. Although this is a drop from the previous year, it was a gain relative to Q1 2014, where the clean technology sector only accounted for $5 million of total VC investment.

Government Activities

Business Development Bank of Canada activities

During Q2 2014, the Business Development Bank of Canada (BDC) made VC commitments totalling $23.7 million into 25 companies (Table 4). These financings were leveraged by an additional $44.3 million from co-investors for total investments of $68 million. Additionally, the BDC invested a total of $19 million into private independent funds, an investment supplemented by co-investors for a total of $34 million.[1]

1. These amounts refer to what the BDC "authorized." Therefore, these amounts may differ from the amounts considered in the rest of this publication, which are based on amounts disbursed.

Table 4: VC activities of the Business Development Bank of Canada, Q2 2014

	BDC	Co-investors	Total	Number of deals
	($ millions)			
Seed/start-up	3.1	4.1	7.2	14
Development	11.5	28.2	39.7	5
Later stage	9.1	12.0	21.1	6
Total	**23.7**	**44.3**	**68.0**	**25**

Source: Business Development Bank of Canada 2014.

Other government activities

In its annual Budget released in June, the Government of Quebec announced its participation in a new venture capital fund in partnership with the private sector and the federal government. The fund will have a total capitalization of $375 million. The province also announced an additional $25-million investment in the Anges Quebec capital fund, bringing the total to $100 million.

Notes

This publication is part of a series prepared by the Small Business Branch. The branch analyses the financial marketplace and how trends in this market impact small businesses' access to financing.

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